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ABSTRACT

At the 1987 Winter Meeting of the National Governors' Association, the Governors adopted a policy program calling for a major reorientation and reform of the nation's welfare system. This document addresses how the welfare system can be reformed to better encourage the self-sufficiency of recipients and reduce their dependency, and how to use savings from those who leave the welfare rolls to extend eligibility to intact families and assure a more adequate standard of assistance where current benefits are low. Suggestions for designing and implementing a reform program are offered in the following areas: (1) the role of the governor; (2) child support; (3) selection of programs and target populations; (4) mobilization of program resources; (5) establishment and management of individual plans for self-sufficiency; (6) management of the delivery of services; (7) intergovernmental issues; and (8) medical care. The report concludes with a discussion of the factors to be considered in working out a cost/benefit analysis of alternative strategies. (BJV)

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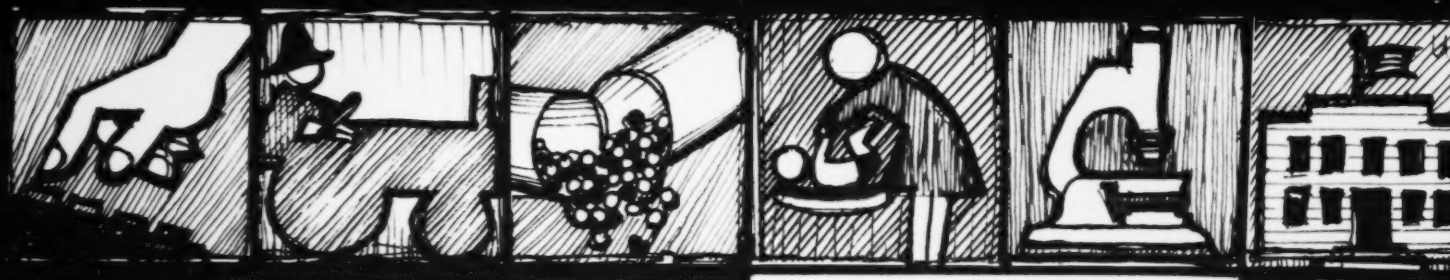

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Task Force on Welfare Prevention

PRODUCTIVE PEOPLE PRODUCTIVE POLICIES

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INTRODUCTION

At the 1987 Winter Meeting of the National Governors' Association, the Governors adopted a policy position calling for a major reorientation and reform of the nation's welfare system.

The goal of welfare reform is to create public assistance programs that foster the creation, strengthening, and preservation of a solid family structure in which parents can do productive work and raise healthy children. Such programs must provide incentives and opportunities for individuals to get training and to seek jobs. They must assure that it is always better to work than to be on public assistance. They must turn what is now primarily a payment system with a minor work component into a system that is first and foremost a jobs system, backed up by an income assistance component.

Providing genuine employment opportunities represents the surest route out of dependency for most families and children who now rely on welfare. For this reason, the current system must be refocused to place the primary emphasis on job placement and removal of barriers to economic self-sufficiency.

To accomplish that goal, the Governors recommended two major changes in the Aid to Families with Dependent Children program (AFDC). First, basic eligibility for income support should depend on an applicant's willingness to accept personal responsibility to actively work toward self-sufficiency. Public assistance should be formulated in terms of a contract under which appropriate recipients would be required to prepare for, seek, accept, and retain a job. In essence, recipients would earn assistance by actively seeking and/or preparing for work. Second, government programs and resources would be made available through new or redirected programs and services to support the applicant in job search and job preparation efforts. A system of case management would be established to organize the government's commitment. This system would be based upon an individualized contract negotiated with recipients that defines mutual expectations and specific responsibilities.

A successful prevention effort must be broader than the welfare or public assistance system alone. First, successful prevention requires a strong and competitive economy and a continuing supply of jobs. Moreover, these jobs must be available, at least in large part, in those areas where welfare recipients live, including the low-income sections of older urban areas and hard-hit farm communities. For these reasons, economic growth and job development must be a critical component of state welfare prevention efforts.

Second, welfare prevention must deal not with current welfare recipients alone, but with the general population as well. For example, teenage pregnancy, particularly pregnancy among young, poor, unwed mothers is a major cause of welfare dependency. Because this problem must be addressed long before the mother becomes a welfare recipient, it is important that it be recognized

as a community problem and that general programs to prevent teenage pregnancy be in place. In addition, problems of employability are greatly increased for the school dropout and adults who lack basic literacy skills. These problems are made even more difficult when compounded by drug or alcohol abuse. Thus, a comprehensive prevention strategy will also seek to address these issues. The components of such a strategy are discussed in more detail in the report on *Bringing Down the Barriers*.

The focus of this paper is, however, the welfare system itself and how it can be reformed to better encourage self-sufficiency and reduce dependency. Within the welfare system, the states can target programs at three different but related levels:

- programs offered prior to the receipt of welfare to avoid the need for welfare;
- programs offered to new recipients to help them move off the rolls more quickly and remain off the rolls permanently; and
- programs for those on the rolls for longer times to increase their employability and productivity.

Ultimately the goals of reform are twofold: to help recipients become self-sufficient and reduce the level of dependency, and to use savings from those who leave the welfare rolls to extend eligibility to intact families and assure a more adequate standard of assistance where current benefits are low.

A welfare reform program at the state level can include a variety of goals such as:

- greater and more timely support from the non-custodial parent;
- more stability among low-income families where family crises and problems can be addressed by expanded counseling and supportive services;
- earlier placement of parents who are seeking work and who are likely to become dependent or who cannot make support contributions because they are unemployed;
- reduced turnover in employment as a result of better job skills, more flexible day care, and other employment-related support services;
- a clear definition of recipient responsibilities for job search, training, and work experience;
- better coordination and improvement of employment and prevention programs to more effectively support recipients as they carry out their responsibilities; and
- assistance to help non-recipients meet preventive and catastrophic medical expenses for children.

States have long taken the leadership role in developing programs to reduce welfare dependency. Their experiences over the past decade provide clear examples of program initiatives that can increase substantially the number of welfare recipients able to find and retain jobs in the private sector. States have also demonstrated the feasibility of the increased use of public sector work experience. Moreover, state experimentation has led to improved child support collections and development of case management techniques that better coordinate the delivery of supportive services while emphasizing the responsibilities of the recipient.

However, reform will not be easy, nor will it be accomplished overnight. Spending priorities and organizational missions must be changed. Programs must be redirected, staff must be retrained, and new systems must be developed. Individual expectations and motivations must be altered. Restructured programs must be tailored to the economic, demographic, and social

conditions in the individual states. This guide is intended to be one of many tools that will help states succeed.

The Role of the Governor

Effective reform of the welfare system will require major changes in the way states deal with welfare clients, in the organization and operation of welfare agencies at the state and local levels, and in the way other state and local programs serve welfare clients. In every instance, the reform program will be broader than the public welfare agency alone. In many instances, it will require new state legislation and new resources or revised funding priorities.

While the details of program design can be effectively delegated, the Governor will want to take an active role in establishing the basic dimensions of the program and in allocating resources and assuring interagency and intergovernmental cooperation. The state budget office, the Governor's policy staff, and special cabinet councils or task forces can help the Governor provide the broad overview and evaluate individual agency proposals. Because of the complex, and possibly controversial, nature of the required changes, the Governor's involvement will also be needed to mobilize public support and to hold state agencies and administrators accountable for the effective implementation of the necessary changes.

Child Support

For some families, timely establishment of paternity and adoption and enforcement of support orders may eliminate the need for public assistance. In other cases, child support can increase the standard of living of a dependent family, while reducing the level of public assistance needed.

Increasingly, American families depend on the earnings of both parents. Efforts to improve the earnings of the custodial parent will help, but it is unfair and unreasonable to expect that parent to bear the support burden alone. More than 88 percent of families who receive public assistance do so because they are not receiving child support from an absent parent. Each year, $3 billion in legally ordered child support goes uncollected and studies estimate that potential child support collections nationally could be $26.5 billion - $30.7 billion, compared to the $7 billion now paid.

It is clear that enhanced child support activities are cost-effective for states and can have a positive impact on family values. Moreover, an aggressive support program can help underscore the costs of premature sexual activity.

A support program includes a number of critical components.

A Strong Legislative Base. Without a firm underpinning of state laws and the broad support of state legislators, no child support enforcement program can hope to make a substantial profit for state taxpayers. As a first step, all states must pass the legislation necessary to implement the 1984 Child Support Amendments. In addition, state legislation may be needed to implement other non-mandated improvements that the state finds effective.

Strong Program Management. Too often, child support enforcement programs have been given a low priority within the state government structure. Given the potential for cost recovery, child support programs need the stature and authority commensurate with the importance and magnitude of the tasks they are asked to undertake. Effective management also entails having the staff and resources to carry out the program's mandates.

Interagency Coordination. Child support enforcement programs cannot operate in a vacuum. They require the active cooperation of other agencies within the state, such as the AFDC agency, the attorney general's office, the judiciary, Medicaid, foster care, the bureau of motor

vehicles, the department of revenue, and others. Currently some states are building child support task forces and forming cabinet-level clusters to address many of these issues.

Effective Establishment of Orders. Without a legally enforceable order, there will be no collections. The time that elapses between opening a case and establishing an order is critical in both overall cost-effectiveness and an agency's ability to process the case. Child support enforcement programs need supporting mechanisms to locate absent parents quickly and establish paternity. Computer links with other state agencies can be established to provide information on absent parents. Other mechanisms can expedite processes for orders establishing child support and create clear guidelines for support amounts. More important, every state should examine its procedures to establish paternity to ensure that all barriers have been removed.

Strong Enforcement Tools. Mandatory wage withholding may be the most effective tool and, according to federal law, it must be a part of every state program. A number of other strong enforcement tools also can be used. Federal and State tax refunds can be intercepted, wages can be garnisheed, and and liens and other law enforcement mechanisms should be available to child support staff. As in all phases of child support enforcement, the strong cooperation and shared commitment of the judiciary is required to ensure that the full force of law comes to bear on those who would escape their child support obligations.

Interstate Cooperation. The extremely mobile nature of our population makes strong interstate cooperation a critical part of the child support enforcement system. States should be prepared to treat interstate cases as their own. Using the model interstate forms developed by the federal Office of Child Support Enforcement and working to build interstate child support clearinghouses can be important steps toward achieving a unified national support enforcement endeavor.

The need for state legislation, the tie to the judiciary, and required interagency and intergovernmental cooperation necessitate strong leadership and integrated action. Governors can provide this leadership and ensure a continuing priority for child support enforcement activities.

DESIGNING AND IMPLEMENTING THE REFORM PROGRAM

The details of welfare reform will vary from state to state, but every state will need to address four critical aspects:

- selecting programs and target populations;
- mobilizing program resources;
- establishing and enforcing individual requirements; and
- managing the delivery of services.

Each of these components is discussed in more detail in the sections that follow.

Background

While AFDC caseloads have remained remarkably stable over the past decade, even in the face of a large increase in the number of poor people and unwed mothers, there is concern that welfare dependency has become a way of life for many recipients who could work if properly motivated and properly prepared.

The design of an effective prevention and reform program must begin with a clear understanding of the dynamics and characteristics of the welfare caseload. For example, not everyone who applies for AFDC receives it. On a national level, more than one-third of the applicants are denied assistance or withdraw their applications before approval. Second, while over 51 percent of the current AFDC caseload has been on the rolls for more than two years and 23 percent has received welfare for more than five years, the majority of recipients who qualify for assistance receive aid for relatively short periods of time. Of the more than two million persons approved for assistance each quarter:

- 50 percent receive aid for six months or less;
- 62 percent will leave the rolls in one year or less; and
- 78 percent will leave by the end of two years.

It is also important to understand that recipients both become dependent and leave the rolls for a wide variety of reasons. While employment is an important factor, the birth of children, divorce and remarriage, child support collections, housing, abuse, and numerous other factors will have a powerful impact on the level of dependency. This data suggests the importance of targeting more

intensive services on the relatively small portion of the caseload that will be dependent for long periods of time. Without such targeting, scarce resources may be focused unnecessarily on recipients who would otherwise leave the rolls on their own.

Third, dependency is not confined to any single demographic group or geographical area. While minorities are disproportionately poor and welfare-dependent, non-Hispanic white mothers and their children make up 41.2 percent of the AFDC population. Although urban areas experience high concentrations of poor families, over 39 percent of poor families live in non-metropolitan areas. This broad distribution of dependency means that programs must be tailored to individual groups and communities. While their objectives will be the same, programs for black mothers in an urban ghetto will be different from those designed for the families of displaced workers in a midwestern suburb or unemployed farm workers in the South.

Fourth, an increasing percentage of the women on welfare are single parents who have never been married. In 1969, 28 percent of the AFDC adults were never married; in 1986, that figure was 46 percent. Many first become parents as teenagers, and young mothers with very young children are an important segment of our current welfare population. The average size of a welfare family has dropped from about 2.6 children in 1973 to 2.0 children in 1983. But 1983 figures show that 41.8 percent of AFDC families have at least one child under age six, and 21.4 percent have at least one child under age three. These data have important implications for prevention programs, child support efforts, and the design of work programs.

Finally, societal attitudes and realities have changed regarding women's participation in the labor market. Consider:

- The Bureau of Labor Statistics reports that 62 percent of all mothers with children under age eighteen now work outside the home. In 1969, only 39 percent did so.

- In 1986, there were 9 million children under six with mothers in the workforce. It is estimated that the number will rise to 14.6 million children by 1995.

- Of all mothers with children under age six, 33 percent work full time, 15 percent work part time, and 52 percent do not work;

- Of all mothers who are divorced with children under age six, 50 percent work full time, 14 percent work part time, and 36 percent do not work;

- Of all mothers who never married with children under age six, 23 percent work full time, 8 percent work part time, and 69 percent do not work.

Increasing numbers of women, even women with young children, are in the workforce and there is a growing consensus that this trend should be reflected in the welfare caseload as well.

It is important to recognize that caseload characteristics and dynamics will vary considerably among the states and among regions within the state. As a result, good state and regional demographic and caseload information is a vital first step in program design.

The design of programs will also be affected by broader demographic trends and by local and regional economic conditions that will have a substantial impact on the number and types of jobs that will be available to welfare recipients. As the number of teenagers first entering the workforce declines and as the number of women re-entering the workforce stabilizes, opportunities will increase. However, regional growth may be concentrated in suburban areas and offer little opportunity to urban or farm families unless transportation assistance or relocation opportunities are provided. Moreover, increasing numbers of entry-level jobs may require education or training competencies beyond the level attained by many current welfare recipients.

Finally, and of critical importance to the Governors, the design of programs will also be affected by the availability of services and the organization of service delivery systems. The lack of child care or the absence of public transportation will seriously limit efforts to stimulate employment. Local governments, local school districts, Job Training Partnership Act service delivery areas, and the private sector must all be involved in a reform strategy. An understanding of their role and the state's role and its coordinating mechanisms will be important keys to successful reform programs.

Selecting Programs and Target Populations

Once there is a clear understanding of the population to be served, it is necessary to focus on the programs designed to encourage and assist welfare recipients to secure work. In general, these fall into five major categories:

- job search;
- job training;
- education;
- work experience; and
- supportive services.

Job Search

While the majority of recipients who find work do so on their own, others can benefit from job search assistance, such as group or individual job search aid, job search classes, and referrals to employment. Program activities may include organized applications for pre-selected job vacancies for individuals or groups, and providing information on how to apply for work and which available jobs to seek out and pursue.

Job search is a lower-cost option than programs that stress behavioral change or new skill development. This strategy is most suitable for job-ready individuals, although it is also used as an initial screening procedure, so that recipients must undertake a search before being considered for other services.

Job search works best as one component of an employment effort: either as an early screen of participants, or as part of a self-sufficiency plan used after an initial assessment and the development of the plan. Once such a plan is developed with a participant, job search should not be used in a way that disrupts the agreed upon course.

Job Training

Job training, or skill development, is a focused set of activities intended to prepare a participant for a specific job or acquire a specific skill that is generally marketable.

Job training components often provide a mix of classroom experience and simulated on-the-job "practice" as the participant moves toward proficiency. Depending upon individual assessment and the labor market, this component is especially helpful for individuals with little or no work experience and those making a transition from one type of employment to another.

Education

This component may cover basic education, high school equivalency, advanced education, and vocational education. In some cases education programs must also include instruction in basic literacy skills or English language training.

Although states do not provide most educational services directly, they can encourage and assist localities by targeting monies in adult basic education, vocational education and JTPA, by providing assessment tools and standardized curriculum, and by developing specialized reimbursement programs.

Work Experience

Work experience programs generally require recipients to provide a specified number of hours of work in return for their welfare grants. Such programs usually operate in government agencies. Work experience is often used as a time-limited component in conjunction with training, in order to build in a protected environment work skills that can then be transferred to private, unsubsidized employment.

Although some argue that long-term work experience assignments should be the continuing service for long-term recipients, the large number of such recipients and a shortage of entry-level jobs in some labor markets may make such a strategy extremely costly. As an alternative, states are looking to other means to stimulate the employment of welfare recipients in the private sectors, such as tax credits and grant diversion.

Supportive Services

Supportive services meet a wide range of needs: day care and transportation directly affect employability; drug and alcohol counseling may have a less direct impact on job seeking but certainly affect job retention. Identifying service needs is an important aspect of assessment and the ready availability of such services can be critical to the success of any employment plan.

In addition, some states supplement these basic components with specialized efforts to develop job opportunities for public assistance clients in both the public and private sectors.

Administrative and financial constraints make it unlikely that any state will be able to serve all the welfare population during the beginning years of the program. As a result, the initial selection of the mix of employment and training programs is particularly important. The cost of these programs per recipient varies considerably. Similarly, some programs are particularly relevant to specific components of the welfare population. A state wishing to serve the maximum number of recipients may concentrate on relatively low-cost job search programs. On the other hand, a state that wants to focus on long-term recipients may choose to allocate more of its resources to basic education. If the priority is teenage mothers, the focus may need to be on job-specific training and/or on the development of additional supportive services, such as day care.

Thus the first step is to carefully analyze a state's welfare population and to determine the combination of services that best meets the priorities of the state and the needs of that population. These services will eventually create a menu from which recipients and agency staff can negotiate individual service plans and contracts. State policy preferences or local economic conditions also may have a significant impact on the types of programs that can be developed. Extensive job search programs may make little sense in areas of extremely high unemployment and training programs will need to be tailored to the needs of employers who will be in a position to hire new employees.

Based on such an analysis, the Governor will want to determine the mix of services to be provided and the level of funding to be allocated to each type. The following hierarchy of services suggests the interrelationships between service choices and target populations:

- job search as the primary service for job-ready applicants and recipients;
- education as the central service for those recipients who lack marketable skills and who are not adequately literate or need English language training;

- employment and training programs for recipients on the rolls, or likely to be on the rolls, for more than one year; and

- work experience for longer-term recipients, particularly those who do not have previous attachment to the work force and who need to develop work habits or to gain an employment history.

Because state experience to date would seem to suggest that more costly programs are cost-effective for the longer-term recipients, the state may also want to explore ways to identify at an early stage recipients who are in danger of long-term dependency. A careful analysis of the caseload may identify characteristics, such as educational achievement, prior work history, or age, that can be used as screening criteria to target services. Such criteria would be a valuable tool to agency staff in negotiating individual contracts and service plans.

While the general categories described above appear well justified, the state may want to consider exceptions to address other priority concerns. For example, the completion of a high school education may be the best choice for young mothers who have dropped out of school to have their children. Even though this strategy may delay their entry into the workforce, it may lead to greater job stability and to higher long-term earning. Similarly, efforts aimed at rapid entry into the workforce may be a priority for young women who have no previous job experience.

An additional factor to be considered is the cost of supportive services. The savings that result from employment may be greatly reduced if that employment depends upon large-scale investments in daily transportation or child care. For this reason, some states need to target their programs on particular geographical areas or on segments of the caseload with relatively limited day care needs.

Finally, in selecting target groups, care must be taken to see that the criteria are objective and that the rights of individuals are protected. It would be inappropriate, for example, to make assignments on the basis of sex or race.

Mobilizing Program Resources

Once the necessary strategies have been identified, it will be clear that not all of them are available from within the public welfare agency. In fact, other state agencies, local schools, community colleges, local governments, community groups, and the Private Industry Councils are the major providers of many of the critical services. Moreover, many of these services are not under the direct executive control of .the Governor.

The development of an effective welfare reform program will require the coordination of resources from a wide range of providers. It may also require the reallocation of resources from other clients currently served by those resources.

Bringing Down the Barriers suggests the complex interrelationships of the service delivery systems currently responding to the needs of dependent persons. In addition to identifying services that are critical to the prevention effort itself, the report suggests tools for analyzing current programs, reviewing what cross-cutting resources are available, and identifying gaps in and barriers to effective utilization. This analysis suggests that one of the first tasks for the Governor is to identify the information needed to begin negotiations with key providers and to take state action to remove or reduce barriers or to encourage and facilitate cooperation and coordination.

While the Governor may directly control some of the resources needed, others will have to be reallocated voluntarily. It is important, therefore, that the Governor consider establishing mechanisms for joint planning. The Governor may also want to use his or her discretionary resources to provide incentives for cooperative efforts. To ensure that the services are responsive, the state may need to use its authority to establish service standards and priorities within programs it funds or supervises.

While some of the necessary planning and coordination can take place at the state level, much of it must be conducted at the local level. The state may facilitate this process by creating a separate local mechanism or by expanding the role of existing coordinating mechanisms. Whatever approach is taken, there needs to be a forum for identifying needs and for resolving problems at both the state and sub-state level.

In addition to the planning and allocation issues, there are a number of operational considerations that will need to be explored and resolved. Procedures need to be established for referral. Common eligibility and program assessments need to be established to facilitate participation and successful program outcomes. Shared information on program openings and client data is essential to aid in targeting services and reducing overlap and duplication.

These issues can be addressed through a variety of means. In some instances interagency task forces may be appropriate, while other problems may be addressed within a single agency. The important thing is that these issues be identified by operating staff before final program decisions are made so that those decisions will reflect the magnitude of the changes required.

Two aspects of this task deserve special attention. First, no single agency has the resources to provide the total range of required services. The challenge is to convince all of the relevant agencies and programs that they are part of the solution. While one agency may need to be given a coordinating responsibility, the total burden must be willingly shared. The active involvement of all of these agencies in the initial planning process can help to accomplish that goal. For example, each agency could be asked to present the Governor with a plan as to how its resources could be redirected to better serve welfare recipients and to identify service gaps or supportive efforts that might increase the availability or effectiveness of their services. Participating in the development of the plan provides a greater sense of ownership and more easily defined accountability.

Second, an integrated information system is critical for both program design and program implementation. Much of the data on recipient characteristics and program services is currently available only on a piecemeal basis. The state will want to develop mechanisms to collect this data for comprehensive analysis and to consider permanent mechanisms to facilitate sharing information across agency lines. For the effective operation of the case management systems, local public welfare agencies will need current information on available services and program vacancies in a number of agencies. In addition, common information systems may facilitate referrals and reduce duplication in the eligibility determination process. Such systems can also make it much easier to monitor recipient and agency compliance with individual and agency contracts. These information systems are also critical to the effective operation of the child support system.

Establishing and Managing Individual Plans for Self-Sufficiency

As outlined in the policy position adopted by the Governors, there are two critical changes that must take place within the welfare system itself: performance contracting and case management. Performance contracting is intended to encourage changes in individual behavior; case management is designed to produce changes in the system itself. Both are required. One without the other will generate disappointment and failure.

The Welfare Contract

The Governors' policy position was based on the belief that there is a mutual obligation between individuals and families, and their society. Individuals have the obligation to work to be self-sufficient; human service agencies are responsible for providing the services and opportunities that can enable welfare clients to seek, and gain, self-sufficiency. While these concepts underlie many aspects of the current welfare system, they are generally treated as abstractions and the application to individual recipients and individual services is often uneven. Too frequently, recipients are unaware of their obligations, obligations and requirements are unenforced, and recipients are denied access to needed services or the available services are inappropriate or

ineffective. The welfare agency must assume the responsibility for delivering some services directly and for working with other providers to manage the delivery of those services it does not provide directly.

In response to these problems, the concept of mutual obligation should be reflected in an actual *contract* between government, represented by the welfare agency, and the individual. Responsibility flows two ways: The individual must be committed to undertaking a number of specific actions to prepare for and seek a job, with the objective of achieving self-sufficiency. In return, government must commit itself to investing in the employability of the individual and to providing adequate income assistance.

The notion of a social contract recognizes that the welfare system serves individuals with a wide range and variety of needs. The contract is implemented through case management -- the brokering and coordinating of the social, health, education, and employment services necessary to promote self-sufficiency and strengthen families.

The contract is both a concept, expressing the belief in mutual obligations between individual and society, and a practical means to achieve the basic goal of self-sufficiency. It implies a level of specificity generally not found in public assistance programs. It recognizes that job-oriented welfare reform cannot succeed unless public assistance is "customized" to take into account the circumstances and needs of individuals and their families.

The client/agency contract is designed to turn goals into reality. The core of the contract will be an employability development and financial assistance plan from which flow the specific obligations of the client and the agency. The contract thus becomes in effect a "discharge plan" aimed at eventual self-sufficiency and independence from the social welfare system.

The client/agency contract results from an assessment of needs and resources and sets out in very specific terms what the client must do and what services the agency must provide in order for "self-sufficiency" to become a reality. The terms include benchmarks and timelines against which both the client's performance and the activities of the agency can be measured. The process through which the contract will be monitored will be case management, which offers a promising approach for implementing the contract both as a concept and as a practical tool.

Although specifics will vary by state and by individual, the contract can contain these basic elements:

- mandatory activities that the recipient must complete in order to receive his or her cash assistance payment;
- other activities that the recipient must complete in order to receive optional benefits such as special allowances, state-financed extensions of medical care, and specialized training;
- the specific services the state will provide in support of mandatory or non-mandatory activities; and
- procedures for enforcing contract provisions, including due process and the recipients' "good cause" defense against sanctions where the specified services have not been provided.

Until such time as the Congress specifically authorizes the welfare contract, state agencies will need to operate within the constraints of existing law. While existing law would seem supportive of the concept of individualized plans as reflected in the contracts, it will be necessary for any sanctions for failure to comply to take place within the context of current regulations governing job search and other employment requirements. Pending the development of new legislative provisions, the more detailed nature of a contract should make the matter of existing obligations and the measurements of compliance easier. Avoiding agency delays in the compliance/fair hearing procedures will be

especially important, as such delays will undercut the concept of the contract as an enforceable instrument.

In designing contractual requirements there are several other factors to be considered. First, there is the question of the population to be covered by contracts. While it might be desirable to cover all recipients, and possibly even all applicants, the volume of work may, at least initially, exceed state capacity. During an average year, more than five million cases flow through the welfare system. If workers were to devote only one hour to the development of each contract, an additional 2,500 staff years would be required for full implementation. Moreover, contracting will require more highly trained workers and effective systems for monitoring and follow-up.

The alternatives range from a largely pro-forma contract signed automatically by everyone as part of the application process to individual contracts signed by a defined portion of the population, probably those for whom services will be readily available. In the former case, care must be taken to see that the concept of individual obligations is maintained in the face of mass requirements. The latter approach requires that target groups be selected on the basis of empirical criteria -- to avoid charges of unequal treatment -- and cost-effectiveness -- to assure that services are directed to those recipients most likely to benefit from them.

It appears that most states will want to phase in contracting, both for specific client groups and, possibly, on a geographic basis. California's Greater Avenues for Independence (GAIN) program recognized the complexity of implementing a comprehensive work program and counties were given up to five years to plan their programs and phase in their full caseloads.

Second, the nature of the recipients' obligations must be determined. Who is to seek work, and how frequently are they to try? Who must complete work on a GED? Who must participate in training? Who must be enrolled in work experience programs and for how long? In addition, are the contractual obligations to extend beyond work-related requirements and include areas like cooperation with child support enforcement, participation in alcohol and drug abuse programs, cooperation with programs to encourage children to remain in school, participation in family planning, and other related areas? While the temptation may be to establish the broadest possible range of requirements, initially a more limited scope may help assure the success of the concept. Whatever choices are made, they must be translated into clear guidelines and workers, both in welfare agencies and related programs, must be trained in their application.

Third, the scope of services to be included must also be determined. Will the contract include only those services in the current WIN program under the direct control of the state welfare agency, or will it be expanded to include a wider range of services offered by a variety of state, local, educational, voluntary, and private sector providers? If the contract includes a broad range of services, what is the agency's obligation to arrange for the actual provision of services? While recipient initiative is to be encouraged, open-ended referrals simply will not be sufficient to assure the availability of necessary services.

Fourth, how will contract compliance be monitored? Will recipients be expected to document job search activities, and if so, what impact will this have on the employers? Will service providers be expected to document and report attendance? How will the performance of participants be measured and how will standards be enforced?

Finally, the contract must address the nature of sanctions on both the recipients and the state. If assistance is to be terminated, for whom and for how long? Is the concept of mutual obligations believable if there are no sanctions for failure on the part of the state? How can the performance of state and local government, educators, and third-party providers be measured and how can performance standards for providers be enforced?

Case Management

A key component of the Governors' welfare prevention strategy is the recommendation that human service agencies establish a case management system, "in which the responsible government agency and caseworker broker and coordinate the multiple social, health, education, and employment services necessary to promote self-sufficiency and to strengthen family life."

Similarly, other related proposals for welfare reform have called for a new type of interaction between the public welfare agency and its clients. The American Public Welfare Association's (APWA) report, One Child in Four, calls for a case management system to "...help families assess their needs and resources and to implement and monitor the agency-client contract. Case managers will coordinate what is now a fragmented and often confusing service delivery system."

The concept of case management involves several different, but related functions. They include:

- assessment, working with the applicant or recipient to determine strengths and needs;
- contracting, working with the applicant or recipient to establish an individualized plan;
- coordination/facilitation, working with the applicant and service providers to arrange for the actual delivery of services; and
- accountability, working with service providers and clients to see that their agreed-upon obligations are fulfilled and, if not, that appropriate corrective actions and/or sanctions are identified and implemented.

In this context, case management is the vehicle through which the client and the agency jointly recognize the client's capacity for self-sufficiency and pursue a plan leading toward self-support. It is the process through which the redefined responsibilities of the client and the agency are expressed.

Two major premises underlie the case management function as envisioned in this welfare reform proposal. The first is that the agency's interaction with the client should communicate that the client is capable of becoming self-sufficient. From the very first client contact, the agency should reinforce the client's sense of motivation and ability to become self-supporting. Thus, a case management system must be structured not solely to "do for" a client, but to empower the client to act on his or her own behalf. This entails having a philosophic framework that builds upon the client's competence; client-staff interaction that reinforces the client's steps toward self-support; and policies and procedures that create incentives for the client to move toward self-sufficiency and for the agency to be effective in service delivery.

The second premise is that case management is only one component of a reformed welfare system. Other changes will be necessary. For example, support resources are needed to assist a family to become self-supporting (child care, education, transportation, health care). Education and employment opportunities are also essential. Reform programs will have to give equal attention to the availability of other support resources -- the absence of which can inhibit self-sufficiency, no matter how strong the individual client motivation or the case management function.

The implementation of a case management system will require fundamental changes in the operation of public welfare agencies and their relation with other service providers. While retraining current staff may provide some capacity for case management, existing eligibility staff is already hard-pressed and states can ill afford the costs of higher error rates that may result if the eligibility verification process is reduced substantially. Moreover, case management may require skills beyond those reasonably expected of some of the staff currently assigned to income maintenance functions. As a result, it is likely that any substantial implementation of the case

management concept will require additional staff. Even a limited or phased implementation will require the development of new program and management tools and substantial staff retraining.

Although there is no "model" case management system, complete case management should include at least four major functions. Depending upon the way the state implements this task, these functions may or may not be performed by one case manager. That is, some functions may be accomplished through other agency staff or contractors. The goal, however, is to implement a *system* that ensures that these functions are carried out, systematically and comprehensively, for all clients requiring them.

The first function should occur during the application period or shortly thereafter and should be designed to ***assess with the client those factors that will influence the client's progress toward self-support.*** The assessment should begin with an examination of the situation that has caused a client to apply for assistance. It should continue with the mutual exploration of the client's educational attainment/literacy, work experience, financial situation, sources of income, need for support services that would enable the individual to work (e.g. child care, transportation, health care), and the strength of the family's informal support systems. The assessment process must be able to identify these problems and determine how much of a barrier they are to self-support. The process should also be used to increase the client's motivation by identifying client strengths and by portraying the options available to the client in a positive manner.

In addition the case management assessment could be used to identify certain critical problems known to create risks, particularly for children. These factors include teen pregnancy, lack of school attendance by a child, substance abuse, child abuse or neglect, and other domestic violence. When these factors are identified, the referral to a service resource could also be required. This will help assure that other important problems are addressed, while maintaining the focus on movement toward self-support.

To summarize, the outcome of the assessment should enhance: client motivation and a sense of responsibility for pursuing self-support activities; greater awareness of opportunities for self-support; agreement between the client and the agency staff on realistic goals; and identification of, and referral to, a service resource for any problems that pose a long-term risk to the client and his or her family.

The development of an effective assessment capacity requires not only trained staff but the availability of assessment tools designed specifically for the welfare client. In addition, the welfare agency may have other providers conduct general assessments or determine the appropriateness of specific services for an individual service plan. For example, the assessment of employment knowledge and skills requires trained professionals to select the correct instruments and to protect against bias.

The second function, following the assessment, should be to ***develop an action plan*** specifying the steps to be taken by both the agency and the client that will lead toward the client's self-sufficiency. This plan should be developed jointly by the client and the agency staff. It should be in the form of a contract or agreement that specifies the actions the client will take to implement the plan, and the services and/or resources to be made available to the client. The format of the plan should require well-defined timelines and benchmarks for progress for both the client and the agency.

The preparation of a plan requires not only the assessment results discussed above, but an inventory of available services. It also requires that staff receive training in creating a service plan that is relevant to the identified goals and addresses the specific needs of individual clients.

The third function should be to ***arrange and coordinate the services or resources necessary to carry out the plan.***

The specific actions of the client and the case manager will vary according to the individual service plan. For many clients, providing them with information about services will be sufficient. For others, more active "brokering" may be required. Clients should be encouraged to take the lead in arranging for the appropriate services or resources where possible. However, the complex nature of the delivery system will often require active assistance from the case manager.

Client services may be arranged by referral within or outside the public welfare agency, purchase of necessary resources, or through direct service delivery.

Examples of services to clients include:

- assistance in obtaining child support;
- regular and remedial education programs, including English as a second language, basic literacy, vocational education, General Equivalency Diploma (GED) programs, and/or special tutoring;
- job orientation or job search;
- skill training or work experience;
- family assistance and support services, including but not limited to child care, transportation, counseling, budget management, substance abuse services;
- health care and health-related services such as health insurance; and
- assistance with obtaining access to adequate or improved housing.

As discussed in the following section, staff will need to be supported by well-defined intra- and interagency agreements, by integrated information systems, and by simplified referral procedures. Public welfare agency staff will need to be trained in these procedures and other service staff will need orientation to these new procedures and to the special needs of welfare clients.

Finally, there should be *follow-up on both the client's and the agency's implementation of the agreement* and the client's success in moving toward self-support. Both the client and the agency are accountable for achieving the goals of the plan. An important role for the case manager here is on-going support for the client's activity in pursuing the plan. Providing support and encouraging the client to solve problems when barriers to self-support arise are an integral part of this task for the agency staff. The necessary monitoring will require feedback from service providers to determine if the recipient is fulfilling his or her responsibilities as well as regular personal contact so that the client and case manager can monitor progress in achieving the goals of the agreement. Adjustments can be made to the agreement to reflect changes in the client's needs and resources or in the available opportunities in the community. It is important to recognize that this monitoring will require substantial changes in systems and in the interagency flow of information as well as additional staff resources. It also requires continuing mechanisms for resolving provider-oriented problems.

The effective implementation of these functions will require substantial changes in the staffing and operation of the public welfare agency and in the relationship between that agency and a wide range of service providers. Within the public agency, the core case management functions cut across a variety of functions that are now largely independent, such as income maintenance, child support, social services, and employment. Over the past two decades, the trend has been to separate services from income support. The result has been to develop an income maintenance staff that focuses on the mechanics of eligibility determination and benefit calculation while other, usually separate, staff focus on developing employment plans or on providing and arranging needed services. The contract/case management concept requires a close tie between the eligibility and service functions. Among the possible models are:

- a single case manager;
- sequential case managers;
- a case management team; and
- case management as a specialized service available only to selected clients.

All of these models share the basic philosophy of client empowerment and shared client/agency responsibility and accountability. All incorporate the four basic functions of contracting and case management outlined earlier. All use a client/agency agreement as the basic tool for outlining mutual responsibilities, expectations, and specific tasks.

However, the models differ in several ways. The primary differences follow:

The Degree of Specialization in Function and Staffing. Some models use one staff person to perform all or almost all elements of the case management task; others use specialized staff (eligibility technicians, employment specialists, etc.) to perform parts of the task.

The Application of Case Management to all Clients. Some agencies use case managers for all clients; others use this approach only for clients who require more intensive service.

The Relationship of Case Management to Other Public Welfare Functions. Some agencies combine case management with determining income eligibility while others separate these two tasks.

The Scope of Case Management Activities. At issue here is the degree to which a case manager tries to identify all family needs or, alternatively, focuses primarily on employment. Agencies differ markedly in their approach to this issue.

Before selecting a model it is important to understand the range of skills the case management function requires and to determine the degree to which such they are present or can be developed within current staff. Among the necessary skills are:

- the ability, with the client, to assess a client's capacity for self-support and assist the client in matching his or her skills with reasonable goals;
- the ability to communicate clearly the expectations of the human service agency;
- the ability to act as an advocate on behalf of clients;
- knowledge of income assistance rules and regulations;
- knowledge of a community's resources related to client self-support;
- the understanding to match client needs with community resources;
- ability to encourage a client to recognize his or her potential and to fulfill obligations;
- the ability to identify other critical issues or problems for the family and assure that the family is in contact with appropriate resources; and
- the ability to hold accountable those delivering program resources or services.

While some service workers may have the requisite combination of skills, it is unlikely that they can be reassigned from priority tasks. Employment staff may also have the necessary skills and

might provide the nucleus of a specialized case management staff. The largest category of current staff, income maintenance workers, is the group least likely to have the required skills. If case management is to be integrated with income maintenance, substantial retraining will be needed and supervisory and special consulting staff must also be increased.

The retooling of income maintenance staff may also have an impact on position classification and salary levels as the case management functions depart substantially from the clerical orientation of the current income maintenance function.

Although reassignment and retraining can provide a nucleus of case management staff, any significant implementation of the case management concept will require hiring *additional* staff. An agency with a caseload of 35,000 would need to reassign or add approximately twenty people in order to provide just one more hour per year of case management services to each case. If more time is needed, and it likely will be, staffing needs will increase proportionately. It is critical that these needs be identified and provided as the reformed system is developed to assure that the anticipated level of service can be provided.

The APWA Task Force recommends that initially an associate degree should be required for this role, with a longer-term goal of a bachelor of arts or bachelor of science degree as a minimum requirement. The task force also recommends, however, that states maintain some flexibility in these requirements because some are finding that individuals without any formal education beyond high school, including former AFDC recipients, may become effective case managers with additional training and work experience. The APWA Task Force recommends that states consider a phase-in of income maintenance staff to the case management role, combining (1) upgrading pay and specification levels for income maintenance workers/case managers; (2) retraining existing staff; (3) gradual turnover of staff unable to perform the new responsibilities with new employees beginning at the appropriate pay and specification level; and (4) an ongoing training capacity to assure availability of qualified workers.

Once staffing has been identified and a model chosen, steps will be needed to incorporate these decisions in the agency organization and in revised systems and operating procedures. Changes will need to begin with the intake process and continue through redeterminations, terminations, and fair hearings. Special provisions will be needed to see that case management becomes a priority and to maintain the integrity of the eligibility process. Training and training resources will be a critical component and agency staff must be given new tools to work effectively at the inter-agency level.

Managing the Delivery of Services

While the case management concept addresses the management of services in relation to individual cases, there are broader service management issues that will also need to be addressed. Within the public agency, service delivery responsibilities must be clarified and procedures must be developed for effective referrals and to see that services are provided. Similarly, the system must include provisions for feedback to assure that sanctions are imposed when recipients fail to comply with contract provisions. The reformed system has to eliminate the chance of losing clients between components of the system.

There must be clear procedures and/or operating agreements to govern the referral of welfare clients to other service providers. Where possible, such agreements should include outcome-oriented performance measures. They also need to include provisions for monitoring and for the rapid resolution of individual and systematic problems. While some of these issues can be addressed at the central office level, most will require direct contacts between and among local offices and local providers.

While new legislation may increase somewhat the service resources of the public welfare agency, many of the services needed by welfare clients must come from other providers at the state

and local level, including local schools, community colleges, the local JTPA entity, the employment service, day care providers, literacy programs, and transportation.

There are several steps the state can take to assure that coordination and cooperation take place. The first step is to accurately assess the need for services on behalf of welfare clients so that these needs can be discussed in the context of other community needs. The second step is to develop a process that will actively involve the variety of providers in modifying the system. Some of the possible elements are:

- a common or coordinated assessment to facilitate interagency referrals;
- an accepted advocacy role for case managers on behalf of their clients to see that services are consistent with the individual contract;
- agreed-upon performance standards that will allow for a shared evaluation of service effectiveness;
- alternative payment mechanisms including the allocation of existing resources to fund services for welfare clients as well as voucher and/or purchase of service agreements; and
- mechanisms that are acceptable to employers to certify the competency of individuals who complete education and training programs.

The state can set an example for other providers by assuring that state-administered programs are coordinated and that all state agencies are working toward the goal of client self-sufficiency. State efforts can include joint planning, co-location, common eligibility requirements, and service priorities for welfare clients. The state can also encourage local participation by involving local agencies in the planning process, providing technical assistance and offering incentive funding.

Finally, neither the internal nor external aspects of the case management system can operate in a vacuum. Both require the development of an integrated management information system that facilitates referrals and information sharing across agency lines and that provides the data to track individual performance and to trigger follow-up activity. Information needs include data on program eligibility, available openings, geographic coverage, client performance, and program outcomes. While the establishment of the system can proceed sequentially, it is critical that the state have an overall plan and that steps be taken early to assure compatibility and to avoid unnecessary duplication.

Just as earlier discussions suggested a number of possible models for staffing the individually oriented case management function for clients, there are also a number of models for staffing the interagency aspects of case management. While some interagency responsibilities can be assigned to individual workers, possibly even the case manager, others will require the attention of higher-level management staff. The Governor will need to see that these functions reflect the Governor's priorities, and that the necessary responsibilities have been identified and that the required authority has been delegated. The very complex nature of these activities suggests that the Governor may want to establish a cabinet council or some other interagency mechanism to coordinate planning and to identify and resolve problems of implementation.

OTHER ISSUES

The sections above provide an overview of the major issues that must be addressed in developing a state plan for welfare reform. There are, however, other issues that also merit consideration. Three of these issues, intergovernmental cooperation, medical care, and cost-benefit analysis, are discussed in more detail below.

Intergovernmental Issues

Welfare reform will require the active cooperation of federal, state and local governments. Each level of government has an important contribution to make and no level can succeed on its own.

The federal government establishes basic welfare policy and provides much of the funding for education and training programs directed at welfare recipients. While the Governors have proposed a major restructuring of the national welfare program, immediate changes must take place in the context of current law. The WIN demonstration program and existing demonstration authority under the Social Security Act give the states and the Department of Health and Human Services considerable flexibility in the design of innovative programs.

Similar demonstration authority exists in the Food Stamp program and most grant in aid programs have some flexibility in the allocation or use of appropriated funds. In addition, a number of federal programs provide the Governor with limited amounts of discretionary money that can be used to encourage cooperation or to provide incentives to certain program priorities.

Governors and other state officials will want to work closely with federal officials to make the best use of available resources and administrative discretion.

Local governments and schools also play an important role in the delivery of income maintenance and employment and training programs. In many states income maintenance eligibility is determined in local offices staffed by local officials. In even more states local government plays a major role in the delivery of day care and other support services. The Private Industry Council is a key player in the allocation of training funds, and local schools provide adult basic education and vocational preparation for many teenagers and adults.

The early involvement of all of these players will do much to establish joint ownership of reform priorities and to foster a climate in which difficult operational issues can be addressed and resolved.

Medical Care

It is often observed that recipients are understandably reluctant to give up welfare if access to health care for their families is jeopardized because of the loss of Medicaid. To address this problem, a state welfare reform package could include transitional health care for people who would otherwise lose Medicaid due to increased incomes earned in jobs that do not provide health coverage.

Data directly relating to coverage extensions for welfare recipients are very limited, but available information confirms the importance of improved transition policies. A study by researchers at Syracuse University under a Health Care Financing Administration grant estimated effects of the loss of Medicaid coverage under 1981 federal budget legislation, which cut AFDC and therefore Medicaid eligibility for working recipients. Findings indicate that 45 percent of the newly ineligible population failed to acquire alternative health care coverage and experienced significant declines in their use of basic health services. It is estimated, for example, that the loss of Medicaid coverage for this population reduced use of physician services by 38 percent and inpatient hospital service use by 71 percent. These findings corroborate the fears of Medicaid recipients regarding the loss of health care coverage.

It is likely that the loss of health care coverage is an even greater problem now than five years ago. As Medicare, Medicaid, and private payers prospectively limit their payments to providers, and purchasers increasingly seek to contract with networks of efficient and low-cost providers, much of the informal private-sector subsidy for care of the poor has disappeared. Health care providers are less willing and less able to shift costs of charity care through higher charges to other payers, and have often curtailed the provision of services to the uninsured poor. Because of these changes in the health care marketplace, third-party coverage has become even more critical in providing access to needed health care for lower income individuals.

Current Extensions

Under current law, Medicaid benefits are extended for families with earnings, beyond the time their cash assistance has ended. There are two situations in which this happens. The first occurs when a family becomes ineligible for AFDC due to increased earnings, an increase in hours worked, or collection of child support payments. (There is no upper income limit for coverage under the provision.) In this situation, Medicaid benefits are automatically extended for a period of four months.

The second reason for extension relates to the earned income disregards under AFDC. For the purpose of determining AFDC eligibility, the first $30 of earned income is disregarded for 12 months and one-third of any additional income is disregarded for the first 4 months. A family that becomes ineligible at the expiration of either of these disregards, automatically receives Medicaid benefits for an additional nine months, and up to 15 months, at the option of the state. Thirteen states now use this option. States have found that only a very small number of families continue to receive Medicaid benefits under "$30 and one-third" provisions, as compared with the number receiving four-month extensions after they leave the case assistance rolls.

These provisions were put in place to provide a smoother transition from public assistance to self-sufficiency. What is now being recognized by the states and Congress is that for the vast majority of families, this simple extension of Medicaid usually provides only a four-month delay in the loss of health care coverage. Alternative approaches that address the availability of private coverage, or lack of it, need to be pursued to create a transition to longer-term coverage.

State initiatives to improve health care benefit transition policies may often involve activities of the case manager. The case manager, who is responsible for arranging services the client needs to carry out the plan for self-sufficiency, can assist in obtaining adequate health care coverage, whether it is a simple extension of Medicaid services or enrollment in alternative plans that involve employer,

employee, and state contributions. The active involvement of the case manager could do much to see that access to medical care does not become a barrier to those who would otherwise leave the public assistance rolls.

Relationship to Private Insurance Coverage

Welfare recipients fear the loss of Medicaid because the jobs available to them frequently lack employer-provided health benefits. About three out of four of the approximately 37 million to 40 million uninsured persons in this country are workers or dependents of workers; about half live in families of steadily employed workers. The lack of health care coverage is a particularly acute problem in lower-wage industries most likely to offer job opportunities for former welfare recipients. While about 15 percent of all workers have no health care coverage, 28 percent of workers earning less then $10,000 have no coverage from any source. Thus, 75 percent of all uninsured workers earn less then $10,000 a year, and 93 percent earn less than $20,000 a year.

A number of states are studying or pursuing policies that can reduce the number of workers without health care coverage. These initiatives hold the greatest promise for reducing work disincentives related to health care coverage and providing continuing coverage of workers who are former welfare recipients. In designing such strategies, however, states should bear in mind that a significant number of former welfare recipients do obtain private health care coverage.

The Syracuse University study also found that about 55 percent of the newly ineligible population were successful in replacing Medicaid with private health insurance, and their use of basic health care services did not significantly decline. More generally, preliminary research indicates that one-third of all uninsured person are without coverage for less than four months and another one-third are without coverage for between five and twelve months. Such findings underscore the importance of health coverage extension policies for former welfare recipients that complement and encourage rather than replace private sector coverage.

Broader State Strategies

Maine, Michigan, and Washington are among the states developing strategies for continuing health care that go beyond simply delaying the loss of Medicaid benefits. Officials in other states, including Florida, Utah, West Virginia, and Wisconsin, are pursuing the development of more affordable health benefit plans for uninsured workers and their employers in general. These initiatives are being designed to provide longer-term coverage assisted by other financing mechanisms (such as employer and employee contributions, possibly with future state and/or federal subsidies for lower-income workers).

The traditional Medicaid program structure is probably too expensive and extensive in its scope of coverage to achieve this. Many of the program's characteristics are designed to meet the needs of the very poor. A more affordable structure could meet the most important coverage needs of workers with modest incomes, while providing a ***transition to longer-term health coverage*** rather than just a one- or two-year extension and termination. For example, states might consider:

- adopting sliding scale premiums (that vary, for example, based on income and/or duration of time lapsed since going off AFDC), deductables, copayments, and other forms of cost sharing;

- designing a benefit package design that is more affordable than comprehensive benefits under traditional Medicaid coverage (e.g., dropping coverage of an optional service normally covered under the state Medicaid plan);

- using other administrative mechanisms rather than only Medicaid, such as piggy-backing on public employee benefit programs as proposed in West Virginia for the employed uninsured, or using a "voucher" strategy that gives a choice of affordable private sector plans; and

- paying or sharing in the employee and/or employer share of premium costs for existing employment-based benefit plans as an alternative to a Medicaid extension. States will also want to consider expanded or modified "payor of last resort" authority, such as the authority to require that an employed former Medicaid recipient purchase an available employer-subsidized health benefit plan before a state-funded benefit plan is made available.

It is possible that pending federal welfare reform legislation will give the states flexibility to use Title XIX federal matching funds for such approaches after the first four-month extension of Medicaid coverage. If states pursue such broader strategies, they could facilitate significant and longer-term improvements in health care coverage for former welfare recipients as well as for other low-income workers and their dependents.

An example of such a broad strategy can be found in the state of Washington. Under recently enacted legislation, the state will provide a basic health plan in five demonstration sites for approximately 30,000 uninsured individuals. The plan will provide services to uninsured persons through cost-effective, managed systems of care. Sliding scale premiums are based on income (i.e., a monthly premium of $10 - $50 depending on income), with relatively modest copayments for office and emergency room visits. The legislation puts a priority on preventive care such as prenatal, postnatal, and well-child services. Under the state's welfare reform proposal, the "family independence project," persons whose incomes fall within 135 percent of the value of the current state AFDC grant plus food stamps would continue to receive Medicaid benefits. When earnings exceed this level, a one-year extension of benefits under Medicaid will be offered. (These Medicaid policies are contingent on the passage of supportive federal legislation.) Medicaid recipients could be given the option of participating in one of the five health benefit plan demonstrations, and after Medicaid eligibility ends they would be able to participate in the basic health plan to receive longer-term coverage.

Maine is developing an insurance plan that will use a managed care delivery system to serve the low-income uninsured and medical assistance populations. The state has received a grant from the Robert Wood Johnson Foundation to implement the program on a three-year demonstration basis. The demonstration, which will involve one rural and one urban site, is a collaborative effort of the Maine Department of Human Services and the University of Southern Maine. The insurance plan will be available to uninsured low-income individuals and Medicaid enrollees. Enrollment for non-Medicaid eligible individuals and their families will be open throughout the year and will be coordinated with job training and placement programs, the State's Welfare Education and Employment Training Program and small business development centers. Businesses that currently do not provide health benefits will be able to purchase coverage for their employees through the plan by contributing toward premium costs. Premium subsidies will be available to low-volume and/or marginal businesses that, as determined by established criteria, would not be able to afford full premiums.

In Michigan, a coalition of state agencies and private organizations is developing a two-site pilot project with support from the Robert Wood Johnson Foundation, that would both improve health coverage for low-income persons ineligible for Medicaid and extend health insurance coverage to individuals who leave public assistance programs for low-wage employment and to certain other low-wage working uninsured persons. Health coverage would be provided to individuals leaving public welfare programs for low-wage employment by (1) a four-month extension of benefits at state expense (or up to 15 months for individuals leaving AFDC) and (2) offering an opportunity for the employee and his or her family to participate in a One-third Share Plan. In the One-third Share Plan, the employee, the employer, and the state would each contribute to the cost of coverage. The employee's contribution may be determined by a sliding scale fee structure based on income and family size. The One-third Share Plan may also be made available to other low-wage employees of participating employers.

Although states are now developing a range of new initiatives, there is a dearth of directly applicable existing programs that states can look to as models. The development of such initiatives

requires that states understand and contend with private market realities such as adverse selection. There are very real economic reasons that insurance products now available to small firms, seasonal workers, and self-employed persons such as farmers are often more expensive than per capita health coverage costs for larger organizations. These factors range from high underwriting and marketing expenses associated with such populations to the costs of state-mandated minimum benefit requirements that do not apply to large firms that self-insure. (Federal law precludes such state insurance regulation of self-insured entities.) NGA's Center for Policy Research is developing a resource document analyzing ways to facilitate the development of more affordable health benefit plans, and to thereby improve coverage of the working uninsured.

Fiscal Constraints and the Need to Target

It is critical that Medicaid extension legislation also be designed to be workable in the context of state budget constraints. Otherwise, cost increases due to this expansion could force reductions or preclude expansions for populations in even greater need. Data obtained from several of the largest Medicaid programs suggest that an extension of coverage would be relatively affordable if it focuses on individuals who lose AFDC and Medicaid benefits because of increases in earnings. This would build on the current four-month extension for such individuals, and would directly address the current work disincentive, consistent with welfare reform proposals from NGA, APWA, and other groups.

However, the extension of Medicaid or similar coverage to all former AFDC recipients, such as women who lose eligibility through marriage, could be prohibitively expensive. Nationally, about two million cases (or one-third of the average monthly AFDC caseload) lose AFDC eligibility each year.

Given state fiscal constraints, it will be essential for states to carefully focus initiatives on priority populations. Incurring greater Medicaid costs for persons above the poverty line could be particularly unfortunate in light of reductions already made in Medicaid coverage of the poor. This erosion in coverage is most evident for women and children whose Medicaid eligibility has been based on AFDC program standards. For these populations, the income eligibility threshold for a family of three in the average state has declined as a percent of poverty from 71.4 percent in 1975 to 48.9 percent in 1987. State use of the new flexibility Congress has given to states to offset this trend -- by increasing Medicaid eligibility thresholds to as high as the federal poverty line for pregnant women, infants, the elderly, and disabled -- could be substantially compromised by expensive expansions for the non-poor. Many states simply would not be able to both broaden eligibility for such groups and fund expensive expansions for less needy populations.

COST/BENEFIT ANALYSIS

Determining the cost and benefit of alternative strategies is one of the most difficult tasks in designing a welfare reform program. In addressing the issue of costs, states should recognize any cost-benefit analysis should extend over a period of at least three years, because savings are likely to accrue over time, while costs for any individual client tend to be concentrated when services are received.

The analysis must consider direct, indirect, and opportunity costs. Direct program costs include the costs of additional staff in the public welfare agency, the costs of contracts with other providers, and the costs of necessary support services such as transportation and child care.

Indirect costs include:

- additional public assistance costs that may result from increased errors due to the reassignment of staff time currently devoted to eligibility determination and benefit calculation;
- additional public assistance costs that may result from delaying the reemployment of certain recipients who are engaged in longer-term training; and
- the cost of supervision and/or materials used in community work experience programs.

Opportunity costs result from the concentration and/or diversion of current resources for training, education, and support services, including the impact of reduced services on other lower-priority clients who may be denied services in order to meet the needs of welfare clients. (Such impacts may be reflected in lost tax income or in unanticipated increases in other assistance programs.)

While it is possible to assign too much weight to the measurement of indirect and opportunity costs, it is important that these costs at least be evaluated when making resource allocation decisions. In most instances the inaccuracies in estimating such costs will be balanced by a similar lack of accuracy in measuring benefits.

Similarly there are a wide range of factors to be considered in calculating the benefits of proposed work programs. While the major benefit will be in the reduction of welfare expenditures below some expected level, current estimating techniques are far from completely accurate, particularly in out-years. Economic or demographic changes may mask or enhance the apparent impact of work programs. Similarly, changes in other programs, like the state effort to improve elementary and secondary education, may produce program savings that are mistakenly attributed to welfare work programs. Other welfare programs, such as enhanced child support enforcement efforts, will also have an impact on future rates of welfare expenditure.

Moreover, since most program designs suggest the importance of targeting services to particular categories of recipients, states should attempt to develop discrete baseline projections and measures for each of these categories.

Because of the problems in establishing a baseline and in determining the cause of deviations, states should pay particular attention to documenting and monitoring the variables considered in their estimates. Regularly reviewing these variables and the measured performance should provide useful information for making the periodic adjustments in investment decisions.

In estimating the benefits of welfare work programs, as in estimating costs, states may wish to consider indirect benefits as well. Some of those benefits are:

- additional tax revenues generated as a result of the increased earnings of individuals who would otherwise be on welfare;
- the economic value of the work performed by recipients engaged in community work experience programs; and
- the likely impact of self-sufficiency upon future dependency for the children of recipients.

There are other less tangible factors that may also play an important part in any final cost/benefit decision. For example, some argue that it is important to preserve the concept of personal responsibility even at some cost to government. Accepting this approach may lead to a decision to continue an investment in welfare work programs even where program savings are not sufficient to offset program costs.

A cost-benefit analysis also needs to address the issue of medical care. Most welfare work programs include some provisions to extend Medicaid or other health insurance benefits in order to remove disincentives to recipients who are preparing to leave the rolls and who may not be able to find jobs with adequate health benefits. This is clearly an additional cost, and needs to be carefully monitored. At the same time, the availability of these additional benefits may lead to recipients leaving the rolls more quickly, and reduce future returns to the welfare role or additional medical costs that might result from delayed or neglected treatment of chronic illnesses. Again, it is important to estimate costs and benefits over an extended period and to establish a baseline and document the assumptions used in estimating savings so that sound resource allocation decisions can be made.

Whatever factors are included in the financial analysis, it is critical that it extend over several years so that the true extent of savings can be captured. This is particularly true in the early years of the program, when the cumulative impact has not yet developed.

CONCLUSIONS AND NEXT STEPS

History suggests that welfare reform is a long-term process and that continued public support depends upon clearly articulated goals and realistic measures of performance. It is critical therefore that any program publicity be related to the size of the investment and that there be periodic reports to the Governor and the public. Moreover, there is a need for a continuing cost-benefit analysis to assure that the program is modified to reflect changes in recipient characteristics, economic conditions, and program effectiveness.